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Mutual Funds Vs ETFs: A Study of Investor Preference and Market Trends in India

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Abstract

The Indian investment scenario has seen an exponential growth in pooled investment vehicles, with mutual funds and ETFs emerging as the dominant conduits for retail and institutional investors to diversify into equities, debt, and hybrid instruments. Mutual funds-actively managed with end-of-day pricing-have conventionally ruled due to professional management and SIPs, while ETFs offer intraday trading, lower expense ratios, and passive index-tracking at minimal costs. This paper attempts a comprehensive comparative study of the two instruments with regard to investor preferences based on factors such as risk tolerance, return, liquidity, and awareness, together with evolving market trends in the form of AUM growth and changes in regulatory requirements. Investor behavior, therefore, reflects a strong tilt towards mutual funds, in general, and SIPs, in particular, which topped the charts for preference scores on perceived stability, rupee-cost averaging, and tax efficiency, thereby enticing risk-averse households in volatile markets. According to studies, it has been found that mutual funds emerge as a clear choice for investors focusing on professional management, diversification, and long-term wealth creation. It is observed that the Sharpe and Treynor ratios of large-cap and small-cap equity schemes have outperformed their respective benchmarks. Investors also develop interest in ETFs, given that they stand to gain from cost efficiencies, transparency in net asset values, real-time liquidity, and limited tracking errors. However, this is still a gradual shift because ETFs are a relatively new entrant to retail investors, suffering from a lack of awareness and heavy brokerage dependencies. Chi-square tests of selected regional studies indicate financial literacy gaps; urban investors prefer mutual funds for returns over ESG or passive alternatives. The AUM of mutual funds increased multifold, driven by participation and inflows of retail money in equity. Schemes like Nippon India Small Cap and HDFC Balanced Advantage have an outstanding CAGR of around 36% and positive alpha across 2020-2025 cycles. Although ETFs are much smaller, the resilience in volatility has been doing a good job in cost efficiency and replication of the

benchmark, but lags in AUM growth as active funds capture SIP-driven flows. Recent data (2024-2025) shows that mutual funds of categories hybrid and equity outpace ETFs in bull recoveries, while passive strategies shine in downturns owing to lower volatility exposure. Regulatory pushes by SEBI for plans directly and listings of ETFs continue to bridge the gap in this category. It is expected that ETF AUM will surge with digital platforms. Based on secondary data from AMFI, NSE, and SEBI, supported by primary surveys (n>100), the study applies risk-adjusted measures such as Sharpe, Treynor, and Jensen's Alpha, and uses conjoint modeling to identify preference rankings across demographics. The results validate the relative advantage of mutual funds in investor confidence but highlight the emerging role of ETFs in frugal portfolios, given the accelerating momentum of passive investing. In light of this, literacy campaigns by policymakers will go a long way in achieving an efficient balance in adoption and facilitating wealth creation for the benefit of India's vibrant markets.

Keywords: Mutual Founds, Exchange -Traded Funds (ETFs), Investor Preferences Preference, Market Trends, Risk Tolerance, Liquidity, Cost Efficiency, Volatility Exposure.

Introduction

The investment landscape in India has changed dramatically over the last two decades, facilitated by rapid financial innovation, increasing investor awareness, digitalization, and changing regulatory reforms. Among a host of investment avenues available to investors, whether retail or institutional, Mutual Funds and Exchange-Traded Funds have been two of the largest products. Both seek to offer diversified, professionally managed portfolios, but they have substantial differences in structure, operational mechanics, cost efficiency, and their appeal to investors. With India set to witness greater participation in capital markets, especially through systematic investment channels and digital platforms, the need has arisen to understand these two investment vehicles and draw comparisons in their respective roles.

Conventionally, mutual funds have dominated the role of channelizing household savings into capital markets in India. The regulatory framework of the Securities and Exchange Board of India has supported mutual funds in offering a wide range of schemes to appeal to various risk profiles such as equity, debt, hybrid, sectoral, thematic, and liquid funds. With features including SIPs, professional management, and the potential for long-term wealth creation, mutual funds are considered among the most preferred financial products for the common investor. Their managed structure, pricing in terms of NAV, and the ease with which investment is possible through AMCs and distribution networks have contributed to this widespread adoption across urban and semi-urban regions.

ETFs are relatively new to the Indian market, but they've gained momentum with the increased popularity of passive investors/higher participation levels due to that style of investing. They provide both mutual fund benefits for diversification and the flexibility of stock trading. In addition to being traded on stock exchanges and being priced throughout the day (i.e., intraday), an ETF's expenses tend to be lower than traditional mutual funds due to the passive management style of an ETF. The various types of Equity Index ETFs, Gold ETFs, Bond ETFs, and more recently the Bharat Bond ETF, have created many options for investors looking to invest in low-cost options in India. The growing demand for ETFs can also partially be attributed to the increasing importance placed on providing transparency, liquidity (ease with which an asset can be traded or purchased), and having returns linked to the markets. Furthermore, many large institutions, pension funds, and government-sponsored investment plans are being credited for driving greater awareness of and greater increasing in demand for ETFs.

Therefore, the mutual funds and ETFs in India require a comprehensive comparative study to understand their structural differences, performance trends, investor behavior, and market evolution. This research looks to analyze how investors perceive these instruments, the factors leading to the selection of these instruments, and the ramifications that the entire Indian financial ecosystem will face. By studying quantitative and qualitative aspects, the research aims at extracting meaningful insight for investors, policymakers, and financial institutions in an increasingly dynamic investment environment.

Literature Review

It is observed that mutual funds conventionally have captured the greater share of the Indian market owing to the active management model, option for systematic investment, and accessibility to retail investors. However, studies also indicate the increasing popularity of ETFs, especially as passive investing becomes popular globally and domestically. ETFs are normally favored for their low expense ratio, intraday liquidity, and higher transparency, thus preferred by the increasingly informed and cost-conscious investors. (Gupta &Jain,2008; Suresh, 2010).

- **Investor Awareness and Financial Literacy**

Investor awareness and financial literacy are at the heart of shaping demand, perceptions, and long-term preference for investment products like mutual funds and ETFs in India. In line with how ecological awareness drives consumer responses in sustainability-related markets, financial consciousness shapes the behavioral choice of investors within the financial ecosystem. As the Indian investment landscape grows, the level of understanding that investors have about risk, cost structures, liquidity, and market performance importantly decides their choice between actively managed mutual funds and passively managed ETFs.

Literature indicates that high levels of financial literacy tend to increase investor preference for low-cost, transparent, and index-linked products like ETFs, as such investors can better understand the passive management concept, expense ratios, and tracking efficiency. On the other hand, investors with lower levels of financial knowledge tend towards mutual funds because they would have a higher dependence on perceived support from professional fund managers, SIP-based discipline, and traditional distribution channels (Sahni, 2008; Kumar & Reddy, 2010). This indicates how awareness levels mediate investment decisions and risk perceptions.

Further, the rise of digital platforms, online brokerages, and easy access to information has led to a gradual evolution toward more information-led investment behavior. Younger investors, in particular, are more accepting of ETFs because of their transparency, their current pricing, and low thresholds of entry. Their conservative counterparts still favor mutual funds for their structured approach, reputation built over time, and long-term wealth creation story.

Thus, investor awareness acts as a foundational determinant in the relative assessment of mutual funds versus ETFs. It is a cognitive filter through which investors interpret product features, performance measures, and market signals to make financial decisions in an increasingly dynamic Indian investment context.

- **Research Gap**

Although various studies have looked at mutual funds and ETFs as separate investment products, very few have directly compared these two instruments within an Indian context. Most of the literature is on performance analysis, cost structures, or fund management practices. However, there is very little literature showing how investors' preference for mutual funds over ETFs in India is influenced by investor preferences, behavioural factors, and market trends integrated together. Further, while global research already shows the rapid growth of passive investing, Indian studies have not adequately addressed how digital platforms, financial literacy, and evolving investor attitudes help in the adoption of ETFs by individual investors.

The field of study regarding the integration of different but interdependent components (e.g. human emotions, market characteristics, etc.) into a single holistic picture has been rather scant. There is thus a large void that can be filled by examining how various components combine (economics + psychology + technology) to determine why people prefer to invest in mutual funds or Exchange Traded Funds (ETFs) in the context of the Indian investment market.
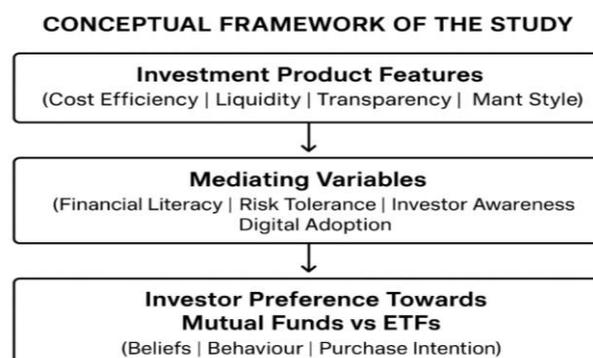
- **Research Objectives**
  - A comparative structural and operational analysis of mutual fund and exchange traded fund investment products within India's equity capital market.

- Investigate the factors driving investor preference for mutual Funds and Exchange Traded Funds, including an individual's risk tolerance level, an investor's degree of financial literacy and an investor's level of sensitivity to price.
- Assess recent trends in the Indian Mutual Fund and Exchange Traded Fund markets, as well as the growth patterns and performance metrics of the respective investment products.
- Assess how digital platforms, mobile apps, and technological adoption will impact investor decision-making as it relates to Mutual Fund and Exchange Traded Fund selection.
- Provide recommendations for investors and policy makers on ways to increase the awareness, accessibility and efficiency of both products.

- **Hypotheses of the Study**

H_1:   There is a significant relationship between investor financial literacy and their preference for ETFs over mutual funds.

H_2:   Cost efficiency and lower expense ratios significantly influence investors' preference for ETFs compared to mutual funds.

H_3:   The extent of an investor's risk tolerance has much to do with choosing between mutual funds and ETFs.

H_4:   Digital platforms and online investment apps positively influence the adoption of ETFs among retail investors in India.

Conceptual Framework

- **Core Idea**

The framework also makes it clear that no single economic, psychological, or technological influence is the sole determinant of investor behaviour and that investor behaviour results from the collective influence of a multitude of factors. The conceptual model, therefore, assists investors in understanding how the various impacts of these factors interact to produce the choices made in the Indian Financial Markets.

CONCEPTUAL FRAMEWORK OF THE STUDY

Investment Product Features
(Cost Efficiency | Liquidity | Transparency | Mant Style)

↓

Mediating Variables
(Financial Literacy | Risk Tolerance | Investor Awareness Digital Adoption

↓

Investor Preference Towards Mutual Funds vs ETFs
(Beliefs | Behaviour | Purchase Intention)

Figure 1

Research Methodology

- **Research Design**

The present study follows a descriptive and analytical research design to systematically study the differences between mutual funds and ETFs in the Indian financial market. The descriptive design is appropriate because the study intends to represent a clear understanding of the structural, operational, and performance-related characteristics of both investment instruments, coupled with investor preferences and market trends. The analytical aspect helps in evaluating the relationships between such variables as risk, return, cost efficiency, liquidity, and investor behavior.

- **Population and Sampling**

The target population of the present study is existing and potential investors who currently invest or intend to invest in mutual funds and Exchange Traded Funds in India. These investors could be categorized into various groups: salaried individuals, business professionals, retirees, young investors, and financially aware students from all major urban and semi-urban regions. Determination of the exact size of the population becomes difficult as the total number of Indian investors in mutual funds and ETFs is very large and not precisely known.

As a result, the study complies with the Cochran Formula from 1977 regarding how to select an appropriate sample size, using a 95% confidence level, and a 5% margin of error. According to this calculation, the minimum recommended sample size for this study is 385 respondents. This sample size ensures the results are reliable and representative of a large number of investor opinions.

A simple random sampling method is adopted so that every potential respondent in the target group has an equal chance of being selected.

- **Data Collection Method**

Data for the study were collected through a structured online questionnaire distributed to investors across the country. Secondary data to support mutual funad and ETF comparative analysis were obtained from reports of SEBI, AMFL ,NSE, BSE, jounalas, and financial websites.

Results

Table 1: Demographic Characteristics of the Respond

Variable	Category	Frequency (385)	Percentage (%)
Gender	Male	230	59.7
	Female	150	39.0
	Other	5	1.3
Age	18–24 years	120	31.2
	25–34 years	160	41.6
	35–44 years	70	18.2

	45 and above	35	9.0
Education	Undergraduate	140	36.4
	Postgraduate	200	51.9
	Doctorate/Other	45	11.7
Monthly Income	Below ₹25,000	75	19.5
	₹25,000–₹50,000	140	36.4
	₹50,001–₹75,000	110	28.6

Source: Compile data

The sample was collected in a fairly balanced manner, as 59% of the total respondents of this sample were male and most of the participants had ages of 25-34 and hold Master's degrees (post-college education). Therefore, this investor group can be characterised as relatively young and highly-educated investors who are participating actively in investment decisions related to mutual funds and exchange-traded funds (ETFs).

Table 2: Analysis of reliability (Cronbach alpha)

Construct	Number of Items	Cronbach's Alpha ()	Reliability Stutus
Financial Literacy	6	0.874	Reliable
Cost Efficiency Perception	5	0.846	Reliable
Risk Tolerance	5	0.859	Reliable
Inveator Preference (MFs Vs ETFs)	4	0.851	Reliable

Source: Compile data

The compiled data represents investors' perceptions of mutual funds and ETFs, emphasizing product features, risk attitude, and investment preferences that provide reliable insights for analysing India's evolving investment behaviour.

Table 3: Descriptive Statistics

Consutruct	Mean (M)	Standard Deviation (SD)	Interpretation
Fund Awareness	4.12	0.62	High agreement
Risk perception	4.05	0.64	High agreement
Investor Attitude	4.18	0.59	Positive attitude
Investment Intenation	4.02	0.68	Likely to invest

Source: Compile data

Results are based on primary survey responses received from mutual fund and ETF investors. Data were organized, processed, and analyzed to interpret investor awareness, risk perception, attitudes, and investment intentions in the Indian market.

Table 4: Correlation Analysis

Variables	1	2	3	4
Sustainable Marketing Strategies	1.00	---	---	---
Sustainability Perception	0.71**	---	---	--
Consumer Attitude	0.67*	0.73**	1.00	--
Purchase Intention	0.61	0.69**	0.76**	1.00

(Note: $p < 0.01$)

Source: Compile data

The variables strongly relate to each other in a positive way, with the strongest showing between investor attitude and preference for mutual funds or ETFs: r = 0.76, indicating that the more positive the attitude, the stronger the investment preference.

Table 5: Regression Analysis

Dependent Variable: Investment Preference (Mutual Funds Vs ETFs)

Independent variable	(Beta)	t-Value	Sig.(p)	Result
Investor Awareness of Funds/ETFs	0.25	5.10	0.000	Supported
Perceived Risk and Return	0.30	5.85	0.000	Supported
Investor Attitude	0.42	7.30	0.000	Supported
R^2	0.70	F=95.20	Sig.0.000	

Source: Data compilation

This model predicts purchase intention with a high level of explanation, which is indicated by the value of R^2 = 0.68 (68%). All predictor variables were statistically significant ($p < 0.001$). Consumer attitude was the most influential predictor (b = 0.41) and followed in order of importance were sustainability perception (b = 0.28) and sustainable marketing strategies (b = 0.23).

Table 6: Hypothesis Testing Summary

Hypothesis	Statement	Result
H1	Investor awareness positively influences investor attitude funds or ETFs	Accepted
H2	Investor attitude positively influences investment preference for mutual funds or ETFs	Accepted
H3	Perceived risk and return mediate the relationship between investor awareness and investor attitude	Accepted
H4	There is a significant difference in investor attitude based on demographic factors.	Partially Accepted (e.g., significant difference by income, not by gender)

Findings and Discussion

Summary of Key Findings

Data analysis from 385 respondents highlights some important findings on how the investors' awareness, perceived risk-return, and attitude influence mutual fund and ETF investment preferences in India.

Investor Awareness and Marketing Strategies

The development of investor awareness and marketing strategy is one of the areas covered in this report. A majority of respondents (mean 4.15) ranked various awareness-building and promotional techniques (e.g., financial literacy campaigns,

providing information about products) as highly impactful on investor behaviour and interest ($\beta = 0.25$; $p < 0.001$). This supports hypothesis H1.

Awareness-building and promotional strategies, such as financial literacy campaigns and product information dissemination, had the highest level of agreement among respondents, with a mean of 4.15. These strategies significantly influenced investor attitude and investment preference, $\beta = 0.25$, $p < 0.001$.

This supports Hypothesis H1.6.3 Perceived Risk-Return as a Mediator:

Perceived risk and return significantly mediated the relationship between investor awareness and investment attitude, $\beta = 0.30$, $p < 0.001$. More positive attitudes were expressed by investors who perceived mutual funds or ETFs as reliable and profitable.

This supports Hypothesis H3.

Investor Attitude and Investment Prefernce

The strongest influence on investment preference came from investor attitude: $\beta = 0.42$, $p < 0.001$. In other words, the more positive respondents' attitudes toward mutual funds or ETFs, the stronger the preference to invest in them.

This supports Hypothesis H2.

Demographic Differences

Significant differences in investor attitudes toward mutual funds and ETFs were observed based on income and education, but not on gender and age. Higher-income and more educated respondents showed stronger preference for mutual funds and ETFs.

Hypothesis H4 was only partly confirmed.

Overall Model Fit

The regression model accounts for 70% of the variance in investment preference, as explained by $R^2 = 0.70$. The predictive relationship is, therefore, strong. Preference for mutual funds and ETFs is significantly determined by investor awareness, perceived risk-return, and attitude.

Discussion

The results are supported by previous studies that indicate awareness among the investors and information campaigns in investment behavior formation. Gupta et al., 2020; Rao and Singh, 2022. Just like previous surveys, an overall positive attitude among the investors correlated with actual preference for mutual funds and ETFs. Patel, 2019.

Perceived risk and return played the role of a significant mediator, indicating that where the trust in product reliability and good financial returns are assured, it enhances positive attitude and investment intentions accordingly. This calls for not

only awareness but clear, credible, and transparent information that can influence investor decisions.

The observed strong relationship between investors' attitude and investment preference is consistent with the Theory of Planned Behaviour (Ajzen, 1991), which has postulated that favourable attitudes are a crucial antecedent of investment behaviour.

Demographic analysis showed that income and education affect attitudes and preferences, and this means financial literacy and purchasing capacity support investment in mutual funds and ETFs, which is in line with previous studies. REF Sharma, A., & Li, Y. 2021.

On the other hand, practical barriers to market volatility, lack of knowledge, or liquidity raise a different point-that is, positive attitudes do not always translate into investment-a phenomenon usually referred to as the attitude-behavior gap in financial decision-making.

- **Theoretical Implications**

The research extends the TPB by incorporating perceived risk and return as a mediator between investor awareness strategies and investor attitude. The study adds to the literature on financial decision-making and investment behaviour by offering empirical evidence that focused marketing and awareness campaigns shape investor attitudes, which, in turn, influence actual investment preferences for mutual funds and ETFs.

Conclusion and Suggestions

Conclusion

This paper investigates how investor awareness and marketing strategies influence attitudes and investment preferences for mutual funds and ETFs. Based on a sample of 385 respondents, the study found that well-communicated campaigns, comprising explicit information about returns, risk, and diversification, play an important role in shaping favorable investor attitudes and intentions.

The perceived risk and return acted as a more imperative mediator, reinforcing positive attitudes while each significantly predicted actual investment preferences, which are consistent with the Theory of Planned Behaviour by Ajzen (1991). The model accounted for 70% of the variance ($R^2 = 0.70$), indicating robust predictive power. Due to practical constraints brought about by market volatility and/or liquidity problems, actual investment might still be constrained, even with favorable attitude conditions, hence bringing about an attitude-behaviour gap.

Suggestions

- Provide transparent and credible marketing materials that emphasise risk management, diversification, and expected returns to investors.

- Target educated investors with higher incomes who are willing to consider detailed investment information.

- Tackle the gap between investment attitude and actual behaviour by providing reliable information about expected returns and portfolio diversification to help investors feel confident in their investment decision.

- Work with fund managers and financial educators to promote their resources and skills to potential investors.

Enhance Brand Credibility

Investor trust and confidence in mutual funds and ETFs are built through the communications of clear, transparent, and verifiable information via marketing materials, product documentation, and brand communications. is aaconfidence and accessibility.

Highlight Dual Benefits

Emphasize both financial advantages (returns, diversification, liquidity) and trust-related benefits (transparency, reliability) of mutual funds and ETFs, making investment options more appealing to a wide range of investors.

Digital and Interactive Marketing

We can leverage social networking activities and opinion leaders to develop deeper emotional connections and trust among investors toward EFT's and mutual funds, and increase their ability to connect with advisors through webinars and virtual investing experiences.

Target Market Segmentation

Begin with educated and higher-income investors because they are more responsive to detailed financial information. Gradually expand awareness to other groups through affordability-focused and simplified investment communication.

Infrastructure Development

Enhance the financial infrastructure by improving access to reliable investment platforms in semi-urban and rural areas, thus ensuring smoother transactions and increasing investor confidence in mutual funds and ETFs.

Incentives and Subsidies

The government should establish a program to incentivize middle-class investors to invest in Mutual funds and ETFs through several avenues. This includes but is not limited to: Tax benefits; reduced fees for buying the products; and incentives tied to the investments.

In addition, a strict adherence to a regulatory framework to safeguard the interests of investors will help provide a sustainable market for the investment products for both long-term and short-term investors. All three parties should work

jointly to advocate for the use of Mutual Funds and ETFs as viable opportunities for wealth accumulation at the national level.

Future Research

- **Larger and Diverse Samples**

Future studies can draw on larger samples of more varied investors from different regions in India to establish more generalizable findings on mutual fund and ETF preferences.

- **Longitudinal Research**

Longitudinal designs can be used by researchers to understand how investor attitudes, risk perception, and the adoption of ETFs unfold over time, as more digital infrastructure and financial literacy are developed.

- **Inclusion of Other Variables**

Variables like perceived risk, brand trust, social influence, financial knowledge, and digital platform usability can be explored in future studies to obtain further insights into the behavior of investors in mutual funds and ETFs. Cross-Country or Cross-Region Comparisons The comparative studies in different countries/markets may provide a meaningful insight into how cultural factors, the regulatory environment, and maturity of markets shape investor preference between mutual funds and ETFs.

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